

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 PA-02 PRS-01 /109 W
-----048388 251000Z /10

R 250845Z AUG 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 4827

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 3882

USDEL MTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

PASS TREASURY AND FRB

E.O. 11652: N/

TAGS: EFIN, SZ

SUBJECT: SWISS FINANCIAL SUMMARY: WEEK OF AUGUST 14-20

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC DECLINED TO
SF 2.41. INTEREST RATES ARE EXPECTED TO DECLINE FURTHER
OVER SHORT TERM. SWISS NATIONAL BANK MONTHLY REPORT FOR
AUGUST REVIEWED POLICY GOALS IN VIEW OF SLIGHT ECONOMIC
IMPROVEMENT DURING FIRST HALF 1977.

FINAL BANKRUPTCY DECREE IS EXPECTED FOR BANKAG,
ZURICH. END SUMMARY.

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2. FOREIGN EXCHANGE AND GOLD: DOLLAR RATE AGAINST SWISS FRANC
DECLINED IN MODERATELY ACTIVE MARKET. DEALERS SAID DOLLAR
RATE DECLINE REFLECTED TECHNICAL ADJUSTMENT TO TOO RAPID DOLLAR
INCREASE THE PREVIOUS WEEK. GOLD PRICE SLIPPED SLIGHTLY. DEALERS
SAID PRICE DECLINE REFLECTED REDUCED SPECULATION INTEREST
WHICH CAUSED DOWNWARD PRICE PRESSURE THROUGH WEDNESDAY,

THOUGH PRICE STABILIZED IN LAST HALF OF WEEK. DELAERS
 EXPECTED PRICE TO RETURN TO LEVEL OF AUGUST IMF SALE. RATES
 FOLLOW:

8/15 (OPEN) 8/19 (CLOSE)

SPOT DOLLAR 2.4230 2.4180

FORWARD DISCOUNTS
 (PERCENT PER ANNUM)

ONE MONTH	4.28	4.27
TWO MONTHS	4.13	4.19
THREE MONTHS	4.07	4.17
SIX MONTHS	3.60	3.76
TWELVE MONTHS	3.30	3.47

SF/DM	103.75	103.86
GOLD	144.5	144.25

3. CAPITAL AND MONEY MARKETS: STOCK PRICES SHOWED FURTHER
 MARKED IMPROVEMENT IN REACTION TO DELCINING INTETEST RATES;
 SKA INDEX ROSE 3 PERCENT TO NEW 1977 HIGH OF 233.1.
 CREDIT SUISSE BEARER SHARES ROSE 6.6 PERCENT. AVERAGE YIELD
 CONFEDERATION BONDS FELL TO 4.12 PERCENT. BANKS ARE REPORTED TO
 HAVE ABUNDANT LIQUIDITY TO MET END-AUGUST REQUIREMENTS,
 DESPITE EXPECTED UNWINDING OF SHORT-TERM DOLLAR SWAPS WITH
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SWISS NATIONAL BANK, DUE TO SEASONAL DECLINE IN DEMAND FOR MONEY6.
 THREE-MONTH DOLLAR SWAP TRANSACTIONS WERE LIQUIDATED IN
 MID-AUGUST, BUT NEW THREE-MONTH ARRANGEMENTS ARE EXPECTED.
 MARKET OBSERVERS SAID INTEREST RATES MAY CONTINUE TO DECLINE
 INTO OCTOBER DESPITE SEASONAL INCREASE DEMAND FOR MONEY,
 BECAUSE BANKS ARE ABANDONING THEIR PREFERENCE FOR HIGH
 LIQUIDITY POSITIONS FOLLOWING CREDIT SUISSE EVENTS OF
 LATE APRIL AND PLACEMENTS FOR INSTITUTIONAL INVESTORS WILL
 CONTINUE TO EXCEED DEMAND FOR CREDIT FOR NEW
 INVESTMENTS AS SWISS ECONOMY CONTINUES SLOW RECOVERY.

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4. SWISS NATIONAL BANK REPORT FOR AUGUST COVERED
FOLLOWING TOPICS:

(A) SWISS ECONOMY: SNB REPORTED THAT IMPROVEMENT IN SWISS ECONOMIC
SITUATION SINCE JANUARY IS ATTRIBUTABLE TO LOW INFLATION RATE
AND IMPROVED XPORT MARKET. HOWEVER, RECENT DOLLAR WEAKNESS
AGAINST SWISS FRANC COULD AFFECT EXPORTS AND SWISS
RECOVERY BECAUSE ABOUT ONE-THIRD OF ALL EXPORTS ARE TO DOLLAR
AREA. THEREFORE, SNB HAS INTERVENED IN MARKET TO SUPPORT
DOLLAR RATE, PRIMARILY IN CONJUNCTION WITH ACTION BY
OTHER CENTRAL BANKS.
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(B) MONETARY POLICY AND CAPITAL MARKET: SNB CONTINUES
POLICY OF MAINTAINING ADEQUATE LIQUIDITY AND LOW INTEREST
RATES. MONEY SUPPLY (M1) WAS WITHIN 5 PERCENT ANNUAL GROWTH
TARGET WHILE SHOR-TERM INTEREST RATES HAVE DECREASED. RECENT
INCREASE IN CAPITAL EXPORT CONVERSIONS ENABLED SNB TO ACTIVELY
INTERVENE ON FOREIGN EXCHANGE MARKET. AD MI-AUGUST 1977 SWISS
FRANC ON TRADE-WEIGHTED BASIS HAD APPRECIATED 0.7 PERCENT
COMPARED TO AUGUST 1976 AND 2 PERCENT COMPARED TO END 1976.
DOMESTIC BORROWERS RAISED SF 2.4 BILLION IN PUBLIC LOAN

ISSUES DURING FIRST HALF 1977, COMPARED TO SF 4.1 BILLION IN FIRST HALF 1976, WHILE FOREIGN BORROWERS RAISED SF 1.1 BILLION AGAINST SF 2.2 BILLION IN SAME PERIOD 1976.

(C) DOMESTIC CREDITS: TOTAL DOMESTIC CREDITS AS OF END-JUNE WERE 10 PERCENT ABOVE END-JUNE 1976, BUT INCREASE WAS 8.6 PERCENT IF DEDUCTION IS MADE FOR INCLUSION OF TEXON ASSETS IN CREDIT SUISSE BALANCE SHEET. TOTAL OUTSTANDING LOANS AT END-JUNE WERE SF 131.7 BILLION, UP 12.4 PERCENT FROM JUNE 1976, BUT 9 PERCENT CORRECTED FOR CREDIT SUISSE TEXON LOANS. MORTGAGES WERE UP 8.7 PERCENT FROM JUNE 1976. DISCOUNTED PAPER WAS UP 20.2 PERCENT BUT LOANS TO PUBLIC CORPORATIONS HAD INCREASED ONLY 3.1 PERCENT. NEW CONSTRUCTION LOANS TOTALED SF 3 BILLION DURING FIRST HALF 1977, SAME AS FIRST HALF 1976. NEW LOANS FOR SINGLE FAMILY DWELLING UNITS WERE UP 41 PERCENT FROM 1976 WHILE LOANS FOR NEW MULTIPLE HOUSING UNITS AND INDUSTRIAL PLANTS DECLINED APPRECIABLY.

(D) FOREIGN ASSETS: FOLLOWING SHOWS CHANGES IN FOREIGN ASSETS HELD BY BANKS AND SNB FOREIGN EXCHANGE HOLDINGS FROM END 1976 TO END-JUNE 1977 COMPARED TO FIRST SIX MONTHS OF 1976:

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END JUNE	1976	1977
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I. BANKS OWN FOREIGN ACCOUNT (IN SF BILLIONS)

ASSETS	74.8	83.5
CHANGE	2.8	2.7
LIABILITIES	51.5	58.7
CHANGE	0.3	1.4
NET ASSETS	23.3	24.8
NET CHANGE	1.7	1.3

II. BANKS FIDUCIARY ACCTS

ASSETS	52.8	66.0
CHANGE	0.1	8.7
LIABILITIES	45.8	57.0
CHANGE	1.0	7.2
NET ASSETS	7.0	9.0
NET CHANGE	-0.9	1.5

III. SNB FOREIGN EXCHANGE	16.1	15.5
CHANGE	1.4	-4.9

(E) SNB PARTICIPATED IN WITTEVEEN FACILITY BY PROVIDING IMF

WITH LINE OF CREDIT FOR SF 1.8 BILLION EQUIVALENT IN DOLLARS
FROM SNB MONETARY RESERVES. NO SWISS GOVT GUARANTEE
WAS REQUESTED. SNB SAID ITS PARTICIPATION INDICATED SWISS
INTEREST IN FINANCING BALANCE OF PAYMENTS DEFICITS, PRESENT
HIGH SWISS BALANCE OF PAYMENTS SURPLUS, AND HIGH SNB MONE-
TARY RESERVES.

5. BANKAG BANKRUPTCY: FINAL BANKRUPTCY DECREE IS
EXPECTED TO BE GIVEN IN CASE OF BANKAG WHICH CLOSED ITS DOORS
NOVEMBER 1976 FOLLOWING DISCLOSURE OF SPECULATIVE
EMBEZZLEMENT BY FIVE SENIOR ANK OFFICERS. REPORTS
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INDICATE INVESTORS MAY RECEIVE ONLY ONE-THIRD OF THEIR
INVESTMENTS WITH THE BANK. LOSSES WERE
REPORTED AT OVER SF 30 MILLION AGAINST TOTAL
BALANCE SHEET ASSETS OF SF 24 MILLION.
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